IN THE UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

IN RE:	) MDL 2303
	) 11 C 9308 and
INNOVATIO IP VENTURES, L.L.C	) related cases
	)
PATENT LITIGATION.	) January 10, 2013
	) Chicago, Illinois
	) 2:07 p.m.
	) Status Hearing

TRANSCRIPT OF PROCEEDINGS
BEFORE THE HONORABLE MAGISTRATE SIDNEY I. SCHENKIER

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THE CLERK: 11 C 9308, In Re: Innovatio IP Ventures, LLC, Patent Litigation, status.

THE COURT: Good afternoon, everyone. Why don't we have a roll call. Starting with plaintiff.

MR. McANDREWS: On behalf of plaintiff Innovatio, Your Honor, Matt McAndrews of Niro Haller.

MR. SCHODDE: Greg Schodde, Your Honor.

MR. SPUHLER: Hank Spuhler from McAndrews also on behalf of Innovatio.

MR. DeVRIES: Good afternoon, Your Honor. Mike DeVries from the law firm of Kirkland & Ellis on behalf of Cisco, Motorola, Netgear, and a variety of other defendants. With me today here is Adam Alper, Gianni Cutri, and Eric Cheng.

MR. FLAMING: Good afternoon, Your Honor. Todd Flaming, Kraus Flaming on behalf of SonicWall.

MS. DIENES: Good afternoon, Your Honor. Jennifer Dienes of Ice Miller on behalf of Hewlett Packard.

MR. JEDLINSKI: Good afternoon, Your Honor. Steve Jedlinski on behalf of Accor North America.

MR. MANDELL: Good afternoon, Your Honor. Steve Mandell on behalf of Dominick's.

THE COURT: Hello everybody. Happy New Year to all. I took a look at the agenda for the conference. I have the motion that's based on the joint statement. Perhaps at the outset, though, you could let me know what happened before

Judge Holderman this morning.

MR. ALPER: Sure. Yes, Your Honor. This morning we talked about --

THE COURT: If I could ask you to make sure you identify yourselves so the court reporter attributes the right people to the right comments.

MR. ALPER: Absolutely. This is Adam Alper for defendants. This morning we talked about a number of deadlines on the schedule. First, plaintiff's deadline for final infringement contentions was set for February 8th. HP and SonicWALL put on the record a few discovery deadlines for their technical productions that will occur prior to those dates, or to that date. So that was the first thing that we did. We then set dates for damages contentions. The plaintiff's damages contentions are due on February 28th. And the defendants' responsive contentions are due on March 21st.

And --

THE COURT: Is the response as to damage or to the --

MR. ALPER: Damages contentions.

THE COURT: Okay. So when is the responsive statement in connection with the infringement?

MR. ALPER: We didn't change that date. So they're currently due --

MR. SCHODDE: February 28th.

MR. ALPER: -- February 28th.

THE COURT: All right.

MR. ALPER: And then lastly, we confirmed that the current discovery deadline is going to remain. I think it's March 4th.

THE COURT: Okay. You agree that's what happened?

MR. SCHODDE: That's fairly a succinct summary, Your Honor.

THE COURT: Okay. There were a couple of consent -- then we'll move into the agenda. There were a couple of consent orders that were submitted. I've signed those. Those will be entered. So that takes care of the first item on the agenda. Let me flip, if I can, to the fourth item, and that is the private sniffings that are ongoing. And I gather they are still ongoing.

MR. DeVRIES: That is correct, Your Honor. We have --

THE COURT: Mr. DeVries.

MR. DeVRIES: I'm sorry. My name is Mike DeVries. And we are making significant progress with completing the sniffs. By the Court's order they provided us with a list a few weeks ago of all the locations they'd like to sniff. Since that time, including some from prior to when they found -- provided that list. We've completed essentially two dozen, almost two dozen sniffs. We have seven more on calendar for the next eight days. And with respect to our clients, we think

that we're going to be completed with everything that they've asked for within approximately the next 10 or 11 days. We're doing some final scheduling right now. But we've been in some instances double tracking. We've been making significant progress and haven't found any impediments.

And what we -- there were a couple of odds and end issues that we are continuing to discuss. What we thought would be the right approach is if it's okay with Your Honor, we'd ask Your Honor to set a hearing. It could even be a phone call if that was more convenient for Your Honor for approximately two weeks from now or at whatever time would be convenient for Your Honor. And if any of those kind of straggling issues have not been resolved, by that point that would give us an opportunity to bring them to Your Honor. But right now I don't believe that we're at issue with respect to anything in particular, and we've mostly kind of resolved everything that's come up.

THE COURT: All right.

MR. SPUHLER: Yes, I think that's fair to say that we're not at issue. Mike and I are probably becoming self-proclaimed sniffing experts. I don't know where that's going to get us in the future, but as we continue these sniffs, we're learning the process, seeing the issues. And there may be a couple redos in light of things that have popped up, but I think we're going to be able to resolve those.

THE COURT: All right. Well, in terms of setting some date to address that issue, why don't we put that at the back of the hearing, and then we'll see what other dates we've set, and then we can talk about it. Okay.

MR. SPUHLER: Yes, Your Honor.

THE COURT: All right. Why don't we discuss the third item on the agenda, and this is the production of inventory information for what are labeled with quotes representative locations. Go ahead.

MR. SPUHLER: Going unopposed I guess. By the way, I'm sorry, Hank Spuhler on behalf of Innovatio. So to give you a little background, Your Honor, this all started in the October/November time frame when we started to get some inventory information from some of the defendants. At that time Innovatio and some of the larger network operators entered into a consent order whereby the parties agreed to provide inventory information to the extent that they maintained it in the ordinary course of business. And if not, Innovatio then had the right to ask for a reasonable number of locations. Even if that meant that they had to go on site and do an individualized inventory.

After the parties entered into that consent order, we then took that and used that as a framework for other defendants. For example, we went to Accor and said would be willing to agree to a similar consent order. For the most part

they were. We had to tweak a few items. And one of the items was this representative issue. Companies like Accor and Panera, maybe some of the mid-sized defendants typically don't maintain this type of detailed inventory information for all of their locations. They objected to providing it across the board. And so what we agreed to was a small number of locations, maybe one, maybe three just so we can keep the ball rolling for purposes of the infringement contentions. And then the parties could come back and discuss what is a reasonable number for the remainder of the case.

Innovatio's position is as part of our proof, obviously we can't prove infringement of the tens of thousands of locations that the defendants maintain throughout the United States. So our hope is to take a control group, and we've identified the Northern District of Illinois, try to identify the locations in the Northern District, the inventory for those locations. We can go out then and randomly select a portion of that control group and then go out and sniff those locations, and then apply our findings and try to extrapolate that to similarly situated locations throughout the United States.

And our concern right now is simply that without that information up front, we may go through this process of identifying the quote, unquote representative locations only to then have the defendants come back and say, you know, for example, the Panera that you chose doesn't have any -- doesn't

use any company owned terminal devices. And so because of that it was inappropriate. And as a result, all the time that you spent attempting to prove your infringement was for naught. So we just want some insight on the front end.

MR. DeVRIES: Your Honor, I must confess I'm not sure what exactly it is that Innovatio's requesting. And I will note for only one reason that we never saw this request. I mean, this is our firm on behalf of the vast majority of defendants in the case, until the night the agenda was due. And that's not meant to be an attack in any way. It's just to say that this is a new request that came to our attention. We had previously entered into a consent order that required us to provide certain inventory information, and we submitted for the remaining defendants that we represent another consent order attached as Exhibit A to the agenda, which you're signing, that provides for inventory information. And there hasn't been any suggestion to my knowledge that our inventory productions are inadequate.

What I understand Innovatio is suggesting is that for 20 locations they would like us to go and provide MAC address information for all wireless devices at that location. That's what I understand they're actually asking Your Honor to order.

THE COURT: Well, is that what you're asking me to order?

MR. SPUHLER: Ideally that's what we would like. If

certain defendants come back and say that's too burdensome, at a minimum what we would like is simply an inventory list. We would like to know whether or not -- let's say, for example, Panera. Not every Panera location has company owned terminals.

THE COURT: What is the difference between that second level list that you just described and the inventory that's in paragraph 1 of the consent order I just signed today?

MR. SPUHLER: Is that Exhibit A?

THE COURT: Yes. Which says that the defendants described in Exhibit A, which I take it are mostly Mr. DeVries'.

MR. DeVRIES: Yes.

THE COURT: Quote, by January 15th, provide an inventory of all 802.11 or CQ wireless equipment including access points, terminals, et cetera, et cetera.

So the second level, the alternative inventory you described, how is that different than what's set forth in paragraph 1 of the order that I have signed?

MR. SPUHLER: Initially for the 20 locations we would only need the make and the model. We just need to know whether or not Panera uses company owned terminal devices. We then have a random --

THE COURT: Well, I'm trying to figure out, though, is that make and model part of the inventory information that would be provided under paragraph 1 of this order?

MR. DeVRIES: So, Your Honor --

THE COURT: Can you say yes or no?

MR. DeVRIES: The answer is -- oh, the answer to that question is no, I can't, and here's why: The inventory information that's maintained by this large number of different companies is variable. And what I mean by that is some companies keep very very detailed inventory lists that down to the piece of equipment level could tell you lots of the information they are looking for. And when we have that information, we've readily given it to them. In some circumstances the inventory information is less detailed. In certain circumstances companies for certain of their devices don't maintain an inventory at all.

So what we've done is provided in every instance, and we're in the process of, to be clear, with some of these defendants the inventory information that's readily available. We have run into situations in the context of this sniffing where they wanted more insight into what kind of devices were there. So we sniffed a million square foot distribution center in Walmart in Spring Valley. I think I've got the city right in Illinois. And we provided them in advance of that a description of the types of wireless devices that were there.

What I understand them to be asking now is for a Court order requiring us to provide a far -- potentially at least, because if we have it, we'll give it to them, but a far

more detailed item by item inventory that includes, for instance, and this is the biggest problem, MAC address information. For us to provide the MAC address for every wireless device in a million square foot facility could easily take days to do for that one facility. And we hadn't met and conferred about this before between the two hearings because this hadn't been raised before.

Mr. Spuhler said to me he understood and we could likely reach an agreement that would not require providing that inventory information where we were -- if we were to, for example, agree that all the equipment at the location was ours. That that would obviate the need for that. And so my suggestion to Your Honor is that we have consent orders that are in place. This is the type of information that we should be meeting and conferring about certainly before asking for a blanket order. And that it's going to be really kind of a case by case thing. Because if we already have the information, there's not a dispute.

If we can go and assemble it, it either will be sort of not very burdensome if we're only talking about a small number of devices, or it could be incredibly burdensome. And so we would request that we sit tight with the consent orders we have. We don't have any disputes with them. And that we continue to have the discussions like we had at the lunch break.

MR. SPUHLER: If I may, Your Honor. One of the reasons why it wasn't addressed with Kirkland & Ellis is because, as Mike mentioned, a lot of the larger entities already have this information. When it comes to Accor, when it comes to Caribou, when it comes to Panera, they don't maintain this information. So you were asking would the production that's coming forth on January 15th address the issue? My answer or my belief is no. And that is based on prior production from Accor, from Panera, from Caribou where they say corporate headquarters may have some information regarding the access points at those locations, but it's unlikely that we may have, you know, individualized location by location information for terminals. And Innovatio and those parties have exchanged multiple versions of consent orders. We've run this issue to ground. We think it's time to address it.

THE COURT: Well, it's kind of new to me. And I don't see -- when you say you've run it to the ground, I don't know that you have run it to the ground. I mean, under this consent order that I signed concerning Accor, they're going to produce the inventory tomorrow, right, January 11th. And it says that this is going to list the model, manufacturer, location, any unique identifiers, et cetera, et cetera. That's readily available. Now, I don't know that you've talked with Accor. Because if they're going to produce this tomorrow, I would think that they have some idea of what they're producing

and what information it's going to have in there and what's not going to be in there. So I don't know why we would be speculating. Why don't we find out.

MR. JEDLINSKI: Again, Your Honor, Steve Jedlinski for Accor. Exactly what the consent order we've been willing to agree to produce is to do it -- to actually go to the hotels and actually figure out the MAC addresses, the SSID information, and what not for those three locations. Obviously it would be a lot more burdensome to go into each Accor hotel in the Northern District of Illinois trying to find out this information because Accor does not maintain this in its normal and ordinary course of business.

MR. SPUHLER: And I expect to get the information that we're looking for for those three locations. Part of the issue is from a statistical standpoint you need to do a random sampling of a control group. And so we need that information up front for more than three locations. And so the issue is not really are they going to be able to provide us the specific information, but for how many locations can they provide it.

THE COURT: How many different locations are there in the Northern District?

MR. JEDLINSKI: I think the number is about 20.

MR. SPUHLER: Yes, it's just over 20. I've been dealing with multiple defendants, so I can't state specifically with the Court. But I think for Accor, Panera, and Caribou

they're all around that 20 range.

THE COURT: So when you say no more than 20, I mean that's functionally all of their locations in the Northern District, which isn't a sample of their locations in the Northern District, right?

MR. SPUHLER: Well, to the extent it's more, and then for a company like Starbucks, you know, there are some defendants that have significantly more than 20.

THE COURT: Right now we're talking about Accor.

MR. SPUHLER: Yes.

THE COURT: Okay. Why 20? Why not 5? Why not 3? Why not 7? I don't know how you pick the number. I don't know what the threshold that you think is for statistical significance. I know what they say. You know, are you talking with some expert? Is there some expert who is providing that information? I'm not aware of that. You want to impose, you know, what may be a significant burden, you know, on them to develop the information. And I don't know to what end.

MR. SPUHLER: So to clarify, we have retained an expert, and we've been working with him. I don't, I don't believe that it really is that burdensome for them to simply identify --

THE COURT: Nobody ever thinks that somebody's else task is burdensome.

MR. SPUHLER: Fair enough.

THE COURT: That's what I've observed.
MR. SPUHLER: But at this point it --
THE COURT: Would you like to pay for their efforts to do it?
MR. SPUHLER: To identify company owned terminals? I don't know what would be involved. It seems like it would be a simple inquiry.
THE COURT: You just told me it's not burdensome, so it shouldn't be much involved.
MR. SPUHLER: If it's a simply inquiry of identifying whether or not they have that type --
THE COURT: Then you'd be willing to pay for it?
MR. SPUHLER: I'm sure we would consider that.
THE COURT: But what if it's a very complicated thing and takes days and days? You willing to pay for that?
MR. SPUHLER: I can't commit my client to pay for it now, but I don't think it will. It's simply identifying --
THE COURT: No, but what I'm saying is that -- the point is if it's not a significant burden, you shouldn't have to pay it, because in the normal course, you know, that's what people have to do. But if it's going to be a significant burden, then you're saying I'm not committing my client to pay for that. But if it's so important that they should be put to that significant burden, if it is such, why wouldn't your client pay for it?

MR. SPUHLER: I'm sure it's something that we'd consider. At this point it's a case --

THE COURT: So why don't you all consider that. Why don't you talk about this some more. Figure out what's actually going to be produced, what you think you really need. Then you come back to me with a more refined issue, because I'm not in a position to rule on this right now. I don't really know what the burden is. You haven't really explained that. You've told me it will take days. I don't know why. I don't know if it's so hard to find out for a particular device or it's simply because some locations may have so many devices that it's just going through hundreds and hundreds or thousands. I just don't know what the basis for that is. So you haven't really given me the tools yet to make that decision.

MR. DeVRIES: Well, we'll work with them in good faith, Your Honor, to work this out.

THE COURT: And work fast.

MR. DeVRIES: And we'll do it fast.

THE COURT: And work fast. I mean, you're going to get inventories tomorrow and Tuesday, right?

MR. SPUHLER: And I think that will assist us with meeting our deadlines.

THE COURT: And that should assist you in figuring out what it is you really think you need. Talk specifically

about that and what you want, and you can then discuss what that involves. And maybe you can reach some agreement on how to do that and who pays for that or cost sharing. You know, there are different ways of doing it. I can give you the considerations, but I don't have the data right now to apply the considerations. Okay.

MR. DeVRIES: Yes, Your Honor.

THE COURT: So why don't we then move to the motion to compel discovery, which is the last item, last remaining item on the agenda. I've taken a look at the joint statement. I'm happy to hear what anybody would like to add.

MR. SCHODDE: Sure, Your Honor. Greg Schodde for Innovatio. First just in case there's any confusion, we're not seeking their back and forth correspondence, their course of negotiation. The requests on their face, and if it wasn't clear in the briefing, I thought it was, or in the joint statement, we just want that notice letter or that demand letter regarding a patent claim or a demand, whether they sent it or they received it. And we've got two I think these are independent grounds for seeking these.

And I'm going to go to the second one first because I think it may actually be more compelling. Your Honor may be aware that the defendants have filed a RICO counterclaim, which to a large extent is based on Innovatio's practices with respect to notice letters that it had sent. And some of the

practices that they've identified in that pleading are things like whether or not there's a duty to disclose, for example, the expiration dates on patents or whether the patents were prior -- previously licensed to anyone, whether there might be potentially an exhaustion defense available.

I think the industry practice in general is not to discuss potential defenses that may be applicable in a notice or demand letter. I think the ones that they've gotten and the ones that they have sent out will tend to show that. They've also made FRAND obligation claims, fair, reasonable, and nondiscriminatory licensing obligation claims. And some of these patents may be subject to obligations made to standard setting bodies where you commit to license on reasonable and nondiscriminatory terms. I believe that these defendants in this industry have from time to time made and received RAND or FRAND demands. I think those notice and demand letters containing those demands and those rates will tend to show what FRAND and RAND rates might be or at least what a range of negotiation might be over RAND rates.

So that's I think one prong for ruling that these are certainly at least discoverable. And the other is to the hypothetical negotiation. Even without their counterclaim, what rates are being paid, what portfolio rates are being offered, I think tends to bond the hypothetical negotiation. I would agree necessarily it doesn't necessarily state what the

ultimate outcome would be. But I think if you're going to talk about a hypothetical negotiation, I think you can at least start with bid and ask.

THE COURT: But why is it relevant if it didn't result in a license?

MR. SCHODDE: I think it informs the negotiation as to what opening bid --

THE COURT: I didn't think it did when we were talking about those between your client and others.

MR. SCHODDE: Although, Your Honor, to be fair, we never said we wouldn't produce our notice and demand letters. And, in fact, we did. There was never any dispute about that. The dispute was over any subsequent Rule 408 type settlement discussions. And we never -- we did not argue that they weren't relevant or potentially discoverable. It was just in the context of this case in terms of managing discovery that we didn't think they should be -- there should be a seat at the settlement table, if you will, for the defendant. So that was a different, a different basis for that. We're not taking an inconsistent position here I don't believe.

But factor 15 in the Georgia Pacific analysis is the hypothetical negotiation. And I think to the extent that you can show what the industry ranges are, that informs the hypothetical negotiator at least in terms of being probative of what the range of royalty might be.

THE COURT: I'm sorry. Has Innovatio produced demand letters with respect to third parties where there was not ultimately a license or settlement agreement reached?

MR. DeVRIES: My understanding is that they have.

THE COURT: Okay. Is that something that was within the scope of what you asked for?

MR. DeVRIES: The scope of our request, as I recall, was all of their licensing correspondence with respect to patents in suit, so yes.

THE COURT: So even if it didn't result in a license?

MR. DeVRIES: That's correct.

THE COURT: Okay. So it is within the scope of what you asked for?

MR. DeVRIES: Well, I wouldn't put that it way because --

THE COURT: I know. I just did, though.

MR. DeVRIES: Well, because here's the -- and if you'll bear with me, Your Honor. What we're really talking about here is actually quite a narrow subset of documents, because we've agreed to produce the notice and demand letters that underlie the licenses. So all we're talking about are notice and demand letters that we have frankly in large part received and if there are any that we've sent. Okay. But mostly --

THE COURT: No, I understand. 54 is the send and 55

is the received I think.

MR. DeVRIES: That's right. And as a practical matter given the way that our clients are structured, these are almost in virtually every instance something that we've received. Okay. And so unlike their own notice and demand letters where the owner of the patent is saying something about the value of the patent, which I think is sort of indisputably relevant to damages, here we're talking about another patent owner on a different patent telling us that we need to pay X dollars. And I think under the precedent there's just no way that's relevant to any damages issues in the case where there's no license agreement.

THE COURT: Well, it seemed to me looking at the letter, the joint statement that there were a couple issues. One is whether this should -- there should be production with respect to demand or notice letters that did not result in license agreement or settlement. A second -- I couldn't tell if there was a dispute as to the time frame. I think that the 10 years got reduced to 6 years. And I don't know if there was any more dispute about that. That was a little bit unclear.

MR. DeVRIES: I don't think there's a dispute that is separate and apart from the others.

THE COURT: All right. So the six-year period is not the issue?

MR. DeVRIES: Yes, Your Honor.

THE COURT: And then the third issue or second issue now that we've eliminated the time period was I guess some difference of opinion or interpretation about what is it that was being offered, because I think you talk about demand and notice letters that use -- concerning technology that uses the wireless, and I think the plaintiff's formulation was that it relates to the wireless. And so it wasn't clear to me how significant that dispute was or disagreement was and whether the difference in that language drops to the bottom line.

MR. SCHODDE: Yes, I -- if I may, Your Honor. Greg Schodde. I think both the time period and the scope of the notice and demand particularly for defendants that might be involved in other industrial products besides wireless communications equipment, devolves to a burden issue.

THE COURT: I don't want to talk about time period because he's just said that he doesn't object to six years independently.

MR. SCHODDE: Sure. But I would categorize it the same way in terms of being an issue of burden. Is it burdensome for them to go out and get all the notice and demand letters they have --

THE COURT: Well, we don't worry about burden unless we first decide that something actually is relevant. And so the question is is something -- a demand letter concerning technology that doesn't use wireless, is that relevant here?

Because I don't know exactly what the boundary is for technology that relates to wireless.

MR. SCHODDE: Sure. I'm going to give you an example. In their brief they talk about encryption and how Cisco has got a patent on encryption. If that patent is -- I think in their view they're saying that if they got a demand letter related to that patent, for example, it's their own patent in this case, but let's say Cisco sent it to Motorola and said we demand that you pay us on fair, reasonable, and nondiscriminatory terms a license royalty of 2 percent on this encryption patent. If they're aiming that patent at cars, I think we have room to agree that that's -- they can exclude that demand letter from our collection.

But if that patent is being aimed at a mobile wireless device like a cell phone or a laptop or an 802.11 device or a 3G or a 4G device, then I would say that's in the, in the area at least, and we should at least be able to consider whether it's ultimately probative of FRAND or RAND licensing ranges in the lawsuit.

I think the formulation that I hear from my colleagues is that, well, it's encryption, so that's not 802.11 specifically. So even though it might go into an 802.11 product, we're going to not give you that notice and demand letter. I'd rather not make those sort of relevancy determinations now. I think that's better preserved for the

experts and for trial. I think we should draw that circle more broadly. Get the notice and demand letters and go from there. And again, that all relates to the hypothetical negotiation prong. It doesn't speak to the other reason we think that it's relevant, which is I think they've put it into play.

MR. DeVRIES: I'm sorry.

THE COURT: Is his interpretation of how you would limit things correct, using the example he did for encryption?

MR. DeVRIES: Right. So I have to confess that I'm not certain exactly now what their position is because in their --

THE COURT: I'm not certain what your position is because you're not answering my question.

MR. DeVRIES: Right. So the short answer is this: The primary dispute --

THE COURT: No, the short answer is yes or no. Yes, he accurately characterized what -- how we would draw the line. And if we're talking about an encryption patent that's going to apply to wireless, you would still keep it out because it's not a wireless patent?

MR. DeVRIES: No, that's not how I would characterize our position.

THE COURT: Okay. So the hypothetical that Mr. Schodde described, in that situation if you had to produce notice letters that fell within that definition, would that

notice letter be produced?

MR. DeVRIES: So the issue that I don't understand is if whether that notice letter was indicating that wireless devices were the accused device or not. And so I think what he's saying is that really many many technologies that don't on their face relate to wireless could conceivably relate to wireless, so that the notice letter regardless of what it says, whether it says your 802.11 products infringe or your ZigBee products infringe, that those are lines that are too fine to draw. And I don't agree with that because I think that that standard could lead to a situation where with a company like Cisco that's selling billions and billions of dollars worth of diverse technology products all over the world, we're really starting to talk about every notice and demand letter that we've ever received even if it didn't lead to a license. And those, those letters couldn't possibly be relevant to damages.

THE COURT: What about the issue of the counterclaim?

MR. DeVRIES: So here's our thought about that, Your Honor: I think there are two different categories of documents to keep in mind. One are the letters that we've received and then the letters that we've sent. In terms of the letters that we received, those letters we think are not at all relevant to our counterclaims. Our counterclaims have to do with the licensing practices of Innovatio and its agents. And so what some other patent owner does when sending us a letter either

exonerates their conduct or says it's okay, maybe they're all doing the same thing. But there's also another thing --

THE COURT: So you want me to make a determination that that evidence would never be relevant at trial?

MR. DeVRIES: That's correct.

THE COURT: I'm not going to make that determination.

MR. DeVRIES: Well, here it's, it's -- maybe I should put it then slightly differently. It's that --

THE COURT: Because you see that that one didn't work.

MR. DeVRIES: But what we're really talking about is opening up a scope of discovery that really has nothing -- it couldn't possibly relate to our counterclaims. And under any scenario --

THE COURT: See, you keep saying that. But I guess I'm a little more skeptical about that. You know, for instance, in the joint statement you say, you know, there is no basis to believe that the supplier defendants have engaged in conduct that they accuse Innovatio of with respect to what you've described as to the intimidating nature of the letters, the misleading nature. Of course, how would I know that? You know, you're asking me to make an assumption that there's nothing in those letters that would show that what they do is par for the course and perhaps not misleading because it's not expected that certain information that you're saying they

should have put in is routinely put in.

You know, you may be right about what their letters say or, you know, the conclusion you would draw from that. I'm not at all, you know, making any kind of rulings or suggestions about that. But to say that, well, you know, they have to make a prima facie showing this is what our letters say before they get to see what our letters say, that seems to me to put, you know, it backwards.

MR. DeVRIES: May I clarify something? Because I was actually talking about a different set of documents. And I want to see --

THE COURT: You were before, but I was going back to what you said in the joint statement.

MR. DeVRIES: Right. Well, and so I do -- I mean, in my experience these kinds of requests where you said we've done something wrong so we kind of want to see every instance where you might have done something wrong, can lead to a scope of discovery that can be very unwieldy. But I mean, I can say this to Your Honor. We don't think that there's any reason to think that there's anything there. But if that's a sticking point or you feel like they need to see these things first, we can produce them. We have nothing to hide there. I do think it's a fishing expedition. I think it's a kind of a scope that is really kind of beyond what might normally be considered discoverable. But we can provide those, although we do think

it's a fishing expedition.

When we're receiving letters from other companies, I really think that's the realm where, you know, they couldn't say, well, look, you're doing it too. What they'd really be saying is, well, someone else out there in the world not you is doing that. And it could really be this sort of large volume of documents, and it just doesn't seem to have any relevance.

THE COURT: Let's say you got letters that were sent to the various defendants. How would you use that to show industry practice?

MR. SCHODDE: We would show them -- we would use them to show that no one explicates affirmative defenses that the target might have in their notice and demand letter. I think that's --

THE COURT: But how would those --

MR. SCHODDE: That, in fact, is the issue, Your Honor.

THE COURT: I understand you might have letters that you hypothetize that would be the case. Maybe the letters don't show that's the case. But let's assume that you got some number of letters that fit the description that you would hypothetize. How would you show that that is actually proof of the industry practice? How do we know whether that's representative? I mean, in the end if you're going to try to prove industry practice, aren't you going to have an expert on

what industry practice is? And isn't the expert going to, you know, do investigation on his or her own behalf to figure out what the industry practice is and discuss standards?

I mean, this -- I could see potentially this being a quite cumbersome way of trying to get certain information that would be incomplete in the end anyway.

MR. SCHODDE: I think in the end, Your Honor, if I may respond, I'll take the last part first. My colleague Mr. DeVries I think has already said that they don't consider this a particularly -- this request, notice and demand letters to be unwieldy or unduly burdensome. I thought I heard that. So I don't think we're talking about a blooming expansion or some exercise that's going to consume enormous resources. At least I haven't heard that argument from my colleague yet.

But in terms of your expert, he's got to have some information to form the basis for his opinion. The defendants in this case by themselves constitute a large fraction of this industry. And as they've said, they do probably get more of these than they've actually -- than they've sent out on balance. So I think between the five of them we'll end up with a fairly good collection from which we can establish that, yes, this is really how it goes in the notice and demand space in this industry. Because the industry is here. Cisco, Motorola, Netgear, these are the major players in this space.

So I think that by getting these produced we'll have

a good collection of notice and demand letters to say, yes, this is how the industry works.

MR. DeVRIES: I wouldn't agree. Here's why, and I don't --

THE COURT: I don't know which part you wouldn't agree with.

MR. DeVRIES: I'll explain. What we've alleged in our counterclaims is not that Innovatio has gone out to the suppliers of the accused devices. In fact, we've alleged something very different. They've gone out to consumers of the devices who don't have the knowledge about what's going on. And so if they -- I don't, I don't concede that this would be relevant evidence. If they want to say that going after consumers who may have already licensed devices and not telling them that the device might be licensed is industry practice, going to the suppliers of the products like us and seeing what letters we get is not going to get them there.

What they might have to do is go to the corner coffee shops and, you know, health care nonprofits and the other kinds of companies that they've gone to with their own licensing demands to see whether when they received the kind of letters that Innovatio sends, the patent owner doesn't tell them about the defenses or the reasons that they may not owe the money that's being demanded. So I actually think that the situations are different and in a material way.

MR. SCHODDE: And again, Your Honor, to respond to Mr. DeVries talking about probative weight, relative value, not discoverability. That's their argument. I think --

THE COURT: Tell me what the burden is.

MR. DeVRIES: Your Honor, I think that there was some burden associated with obtaining these, making sure that they're complete, figuring out which relate to that, and I can't -- you know, I don't think it would be insanely burdensome to do not like the MAC address thing. I think that there is work associated with it, and it's -- but it's not something that I can say it's going to take us weeks to do.

THE COURT: All right. How did you pick six years?

MR. SCHODDE: It was an effort to compromise, Your Honor. I really would prefer 10.

THE COURT: I'm sure you would.

MR. SCHODDE: But if -- you know, if Your Honor wants to impose limits --

THE COURT: I'm going to order three.

MR. SCHODDE: -- we'll impose them --

THE COURT: I'm going to order three years. But I'm not going to limit it to consummated agreements. I'm not going to limit it to only what uses the wireless. I'm going to use the plaintiff's formulation.

MR. SCHODDE: Thank you, Your Honor.

MR. DeVRIES: Thank you, Your Honor.

THE COURT: How long would it take you you think to produce that? You want go back and consult about that and try to agree on a time frame to do it?

MR. DeVRIES: I'd appreciate that. I don't think --

THE COURT: I don't want you to shoot in the dark on it.

MR. DeVRIES: Right. I'd appreciate that. But I don't -- I think we could do it relatively expeditiously within a matter of a couple of weeks, but I need to confirm.

MR. SCHODDE: Do you want us to call Your Honor for a date for an order, or just agree amongst ourselves?

THE COURT: I think you can just agree among yourselves. If you want to embody it in a consent order that you submit to me, I'm happy to sign it.

MR. DeVRIES: Yes, Your Honor.

THE COURT: And I'll put into the order today that this is what I'm requiring, and that the parties will meet and confer about a schedule in which to produce the information. Okay.

MR. SCHODDE: Thank you, Your Honor.

MR. DeVRIES: Yes, Your Honor.

THE COURT: All right. I think that that addresses all of the items on the agenda. Why don't we go back to the issue about another time to get together. There was some suggestion about perhaps setting a date in a couple weeks to

talk about where you're at with the sniffs and to resolve any other issues about that. And since we talked about that, we also have this MAC issue. So maybe we can set a date a couple weeks out where we could take up any issues regarding all of that. That make sense?

MR. DeVRIES: Yes, Your Honor.

THE COURT: Okay. So looking at the schedule where these inventories are going to be all produced by the 15th, one of them tomorrow and the others on the 15th, you want to talk about a day the last week of January?

MR. DeVRIES: That works for us, Your Honor.

THE COURT: Is that enough time then to figure this out?

MR. SPUHLER: That should be enough time, Your Honor. The one thing I'm concerned about is that February 8th deadline for contentions. If we do have issues with the sniffing, we may want to address it before then so we've got ample time to gets the results.

THE COURT: Well, if you want to do it the prior week, we can probably find a date.

MR. SPUHLER: The 24th.

MR. DeVRIES: That works for us too, Your Honor.

MR. SPUHLER: That was the one we had discussed previously.

THE COURT: How about 1:30 on the 24th?

MR. SPUHLER: That's fine, Your Honor. And then we would have a joint statement or something the Monday prior?

THE COURT: Yes, but you have to make it shorter so I have a chance to read it, or get it in earlier. But if you want you to do it Monday at noon.

MR. DeVRIES: And we'll make it short, Your Honor.

THE COURT: Okay. And, you know, if you're able to resolve things, you don't think you need a hearing that date, then you can let us know, but, you know, we'll set the time aside.

MR. DeVRIES: Our hope is that we may not need it, so we'll see.

MR. SPUHLER: Even on the MAC address issue hopefully.

THE COURT: Well, you know, I think that it's important to be optimistic. There's always time for pessimism later. All right. So that's good. January 24th at 1:30 for the next status and/or motion hearing. And then if any joint statement is going to be filed, that should be by soon on Monday the 21st. I know it's a court holiday, but since you all do things electronically, it doesn't matter. But you'll just deliver it the next morning. Okay.

MR. DeVRIES: Yes, Your Honor.

THE COURT: All right. Is there anything else that we should take up today?

MR. SCHODDE: Nothing further, Your Honor.

MR. DeVRIES: Nothing further.

THE COURT: Okay. Thanks a lot everybody.

CERTIFICATE

I HEREBY CERTIFY that the foregoing is a true, correct and complete transcript of the proceedings had at the hearing of the aforementioned cause on the day and date hereof.

/s/TRACEY D. McCULLOUGH *January 14, 2013*

Official Court Reporter Date
United States District Court
Northern District of Illinois
Eastern Division